Before analysis can begin on the rental car tax, a proxy value for rental car expenditures must be developed. This calculation is made by dividing historic tax receipts, provided through SABHRS, by the current tax rate. The proxy is then related to the non-resident tourism expenditures on a proportional basis.

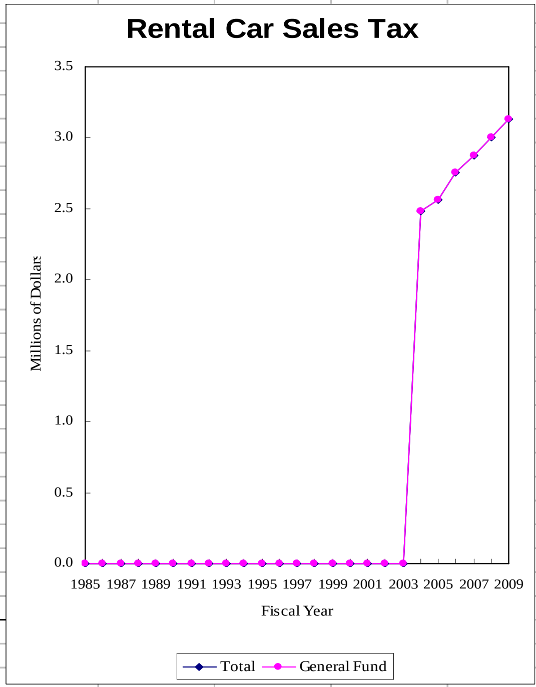
Analysis

Because of the recent nature of the rental car sales tax, neither a trend nor a regression model provides adequate results for estimating future collections. Consequently, future growth in the rental car sales tax is based on the average growth of non-resident tourism expenditures, which is currently 4.4 percent. To develop the proxy of rental car expenditures from fiscal 2006, the last year of actual collections data, fiscal 2006, is increased by the average rate of growth. This methodology produces estimates of \$2.8 million in fiscal 2007, \$3.0 million in fiscal 2008, and \$3.1 million in fiscal 2009. As the tax is imposed in future years, historic growth rates will become available, which will enable the calculation of growth rates from actual data.

Adjustment and Distribution

The final step in development of the rental car sales tax projection is to reduce the projection by credits and audits. Credits may be requested by vendors for tax payments on dollars that are later recognized as bad debt. Additionally, a credit is allowed if a similar tax has been levied and paid in another state on property that was leased outside this state but used in the state. Additionally, the DOR may audit the accounts of vendors who pay the rental car sales tax, and both positive and negative adjustments may be made to the total collections. To date, no credits or audits have occurred.

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1985	0.000000	0.000000	Not App.
A	1986	0.000000	0.000000	Not App.
A	1987	0.000000	0.000000	Not App.
A	1988	0.000000	0.000000	Not App.
A	1989	0.000000	0.000000	Not App.
A	1990	0.000000	0.000000	Not App.
A	1991	0.000000	0.000000	Not App.
A	1992	0.000000	0.000000	Not App.
A	1993	0.000000	0.000000	Not App.
A	1994	0.000000	0.000000	Not App.
A	1995	0.000000	0.000000	Not App.
A	1996	0.000000	0.000000	Not App.
A	1997	0.000000	0.000000	Not App.
A	1998	0.000000	0.000000	Not App.
A	1999	0.000000	0.000000	Not App.
A	2000	0.000000	0.000000	Not App.
A	2001	0.000000	0.000000	Not App.
A	2002	0.000000	0.000000	Not App.
A	2003	0.000000	0.000000	Not App.
A	2004	2.485989	2.485989	Not App.
A	2005	2.565554	2.565554	3.20%
A	2006	2.755072	2.755072	7.39%
F	2007	2.875000	2.875000	4.35%
F	2008	3.000000	3.000000	4.35%
F	2009	3.131000	3.131000	4.37%



Forecast Methodology:

Total Base Car Rental Charge **X** Tax Rate → **Total Rental Car Tax Revenue**

Legislative Fiscal Division

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The Legislative Fiscal Division

Presents

Taxes in Brief…

Rental Car Sales Tax

November 2006 **Fiscal Pocket Guide**

Revenue Description:

Beginning July 1, 2003, a new four percent sales tax is imposed on the base rental charge for rental vehicles. The base rental charge includes use charges for time and mileage, insurance, accessory equipment, and charges for additional or underage drivers. It does not include price discounts, charges for operating an airport concession, motor fuel, intercity drop charges, and government taxes.

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Revenue Description: (continued)

A rental vehicle is one that is used by a person other than the owner by arrangement and for consideration. Included are light vehicles, motorcycles, motor-driven cycles, quadricycles, motorboats and sailboats, and off-highway vehicles. Sales to the U.S. government are exempt from the sales tax. All facilities subject to the tax must obtain a seller's permit before engaging in business subject to the sales tax within Montana. The Department of Revenue may require a retailer to post security up to twice the average tax liability to be used to recover taxes, interest, and penalties owed. Vendors are allowed to claim and keep five percent of the tax as an allowance, not to exceed $1,000 a quarter.

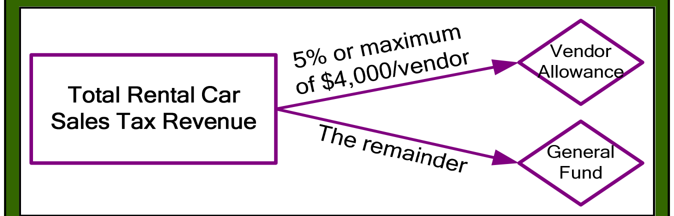
Statutory Reference:

Tax Rate (MCA) - 15-68-102(1b)
Tax Distribution MCA) - 15-68-820
Date Due - before the last day of the month following the calendar quarter (15-68-502(1))

Applicable Tax Rate(s):

A four percent sales tax is imposed on the base rental charge for rental vehicles.
Distribution: All revenue from this tax is deposited into the general fund.

Distribution Methodology:



Collection Frequency:

The vendor must pay the tax due by the last day of the month following a calendar quarter.

% of Total General Fund Revenue:

FY 2004 - 0.18%
FY 2005 - 0.17%
FY 2006 - 0.16%

Revenue Estimate Methodology:

Data

The estimate of the rental car sales tax requires data from two sources, the state accounting system (SABHRS) and the Institute for Tourism and Recreation Research (ITRR). The SABHRS data includes the historic tax collection observations and the ITRR data provides the historic growth associated with the tourism industry.

SABHRS data provides only three historical collection observations of the rental car sales tax. Because the data is so limited, ITRR data is used to provide a proxy for future growth with their Montana non-resident tourism expenditure data series. The unadjusted (inflationary) series is used because the tax is based on a percentage of the rental costs of vehicles. As seen in the figure below, tourism expenditures are expected to experience slow growth in future years. Historically, the growth of non-resident tourism expenditures has varied between 3.8 percent in fiscal 2000 and 5.4 percent in fiscal 2005. Inflation during the period fluctuated between 2.2 percent reported in fiscal 2000 to 3.0 percent reported in fiscal 2005. Average inflation during the period was 2.5 percent.